

Forum

MANAGING FOR INCREASED COMPETITIVENESS

Make Decisions Like a Fighter Pilot

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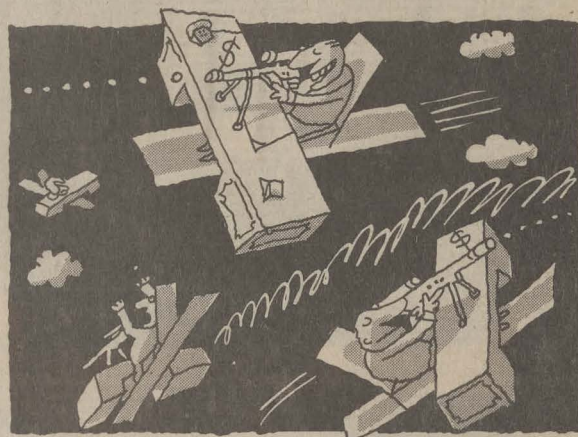
CORPORATE strategy goes through phases. Companies have been restructuring their business portfolios and operations through the mid-1980's to raise stock prices and cut costs, and many are asking what to do next. How will the next round of competitive advantage be created? Leading-edge companies across a variety of industries are beginning to give the answer: build an organization with fast response time in serving customers and pre-empting competitors, and you will grow profitably.

Restructuring meant competitive survival rather than competitive advantage for many large older companies. Raiders forced these companies to jettison underperforming business while their Japanese competitors made them downsize and outsource high-cost manufacturing activities. Organizationally, layers of management were collapsed and individual business units made smaller, all to get the company closer to its customers and its managers closer to employees. Useful as this restructuring was, it was only a correction, a catch-up to competitive realities.

Real advantage requires of management something uniquely active and not easily achieved. Consistently greater speed in making management decisions, in developing new products and in delivering orders to customers ahead of the competitor creates that advantage. Fast-response companies are also likely to have lower cost and be more innovative than their competitors.

The best analogy for this kind of highly competitive management comes from the Air Force, which studied why certain pilots consistently won dogfights in wartime. Their findings were that winners complete the so-called O.O.D.A. loop — the cycle of observation, orientation, decision and then action — faster than losers.

The outcome between comparable planes was decided by which pilot could size up the situation and read opportunities in each encounter and



then decide and act before the enemy. By pre-empting an adversary's move, the winner throws the loser into confusion and into a reactive cycle. After gaining this insight the Air Force designed aircraft and trained pilots to process sensory data into decisions faster.

The business world moves faster today. Business competition has become more like an encounter between fighter planes than a chess game, which had been our prevailing analogy. Product life cycles are much shorter. New products that utilize hybrid technologies are more frequent. Mass markets are dissolving into smaller customer segments, making competition messy. New materials and technology are multiplying company choices in how to design, make and distribute a product.

Fast-response companies manage their O.O.D.A. loops, starting with timely observation and orientation. For example, they collect today's sales data at the retail level because wholesale data are too late and distorted. They visit advanced university labs as research is taking shape and do not just read the papers. They study their customers thoroughly from several different points of view. Reactive companies suffer late recognition and disparate views, then incur the extra cost of studies and dispute resolution to fix them.

Fast-response companies acceler-

teams perform better than many departments that separately handle and slow down information. New product development is usually authorized by top management in big, discrete projects, but is done better in a continuous flow.

FAST-RESPONSE companies not only have marketing advantages, but also tend to have lower costs because when production materials and information move through a company's operation quickly, they collect less overhead and do not accumulate as inventory. Also, the company can innovate more effectively because more new products can be conceived and engineered in a given period, giving customers more choices.

Management's focus on O.O.D.A. loop improvement will heavily influence our concept of business strategy. Competitive strategy has to be dynamic and recognize the system-like nature of a company. But the planning lexicon has become too reliant on static and positional notions. Our concept of competitive advantage must shift to more of an operations and real-time orientation.

To accomplish this, the analytic questions become: How can my company build faster capability? Where does my current operations architecture and mind-set slow the company? What is the performance of my competitor's O.O.D.A. loop?

Governments carefully design aircraft/pilot systems for superior O.O.D.A. loop performance, and companies are starting to follow. The basic building blocks are the flow of information, the organization of work and the perceptual range of people. Building such an organization is not hard science, it is rigorous craft.

The focus of the O.O.D.A. loop will ultimately influence the nation's competitiveness and trade balance. American companies with fast response time and high-quality products will close the gap against imports. But highly competitive foreign companies seeking greater shares of the American market will also be establishing self-sufficient operations in the United States. They will be removing the delays that long distances impose on their own performance in order to quicken their response time in today's fast-changing environment.

IF THE SOCIAL SECURITY TAX AND THE A.M.T. DIDN'T GET YOUR GOAT, MAYBE THIS WILL.

Under present law and decades old custom, if you buy a bond at a discount which the market, as opposed to the original issuer, has priced at less than face value, you owe tax on any realized gain at maturity or upon sale. Fair enough!

But if Sec. 10118 of the Budget Reconciliation Bill (H.R. 3545) passed by the House of Representatives becomes law, you will have to "accrue the gain on market discount annually," and pay ordinary income tax every year on a hypothetical increase in value, whether the bond has gone up in value or not.

The onerous new treatment of gain would apply to all bonds — municipal, government, corporate — purchased at a market discount after October 13, 1987. If you hold bonds purchased at a discount before October 13th, you yourself may be spared the tax on phantom income and monumental accounting headaches involved in accruing annually. But unfortunately you are not spared the impact on the market value of your holdings.

All outstanding bonds are immediately reduced in market value, because in the hands of a future purchaser they would be subject to the new tax. Analysts at John Nuveen & Co., Incorporated estimate that the reduction in market values could range between \$10 billion and \$20 billion—versus only \$447 million the authors of the provision hope to raise from it over the next three years.

Once again, for the normally peaceful and undemonstrative bondholder, it is "To the barricades!" to delete a provision from legislation before it's too late and becomes law. New Yorkers are twice blessed with not one but two members of Congress who will be on the House and Senate Conference Committee charged with crafting the final bill in the next day or so:

Senator Daniel P. Moynihan
Senate Russell Office Bldg.
Washington, DC 20510

Congressman Charles B. Rangel
Rayburn House Office Bldg.
Washington, DC 20515

Neither Senator Moynihan or Congressman Rangel cooked up the idea, but wire them both. Annual accrual of market discount on bonds imposes a tax on income the investor may never realize. It adds volatility to an already volatile marketplace. It creates a horrendous accounting nightmare. Or save yourself the expense a wordy telegram. If you simply wire, "Please delete Section 10118," they'll know what you mean.

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